

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**REPORT ON THE FINANCIAL CONDITION OF
THE PERALTA COMMUNITY COLLEGE DISTRICT**

STATE OF CALIFORNIA
OFFICE OF THE AUDITOR GENERAL

REPORT ON THE FINANCIAL CONDITION OF THE
PERALTA COMMUNITY COLLEGE DISTRICT

Prepared by:
Harvey M. Rose Accountancy Corporation
Certified Public Accountants
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Telephone:
(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General
660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Thomas W. Hayes
Auditor General

January 17, 1986

F-579

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents a report prepared under contract by the Harvey M. Rose Accountancy Corporation concerning the financial condition of the Peralta Community College District.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

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SUMMARY

On July 9, 1985, the Governor approved AB 539 which appropriated \$4.8 million for emergency apportionments to provide loans to three community college districts which were experiencing financial difficulties. The Peralta Community College District was identified to receive \$2 million of these funds. As a condition for receiving these funds, the Peralta Community College District was required to submit to the county superintendent of schools a plan, adopted by the District Board, to resolve the District's financial problems. The Chancellor of the California Community Colleges is required to review information submitted by the county superintendent regarding the financial difficulties of the Peralta Community College District and to provide comments and recommendations to the State Director of Finance concerning the release of these funds.

The 1985-86 budget for the District includes the \$2 million loan from the state in its estimated revenues. Including these funds, the 1985-86 District budget is projected to be in deficit by approximately \$1.17 million. However, the District Chancellor projects that if no corrective action is taken to resolve the District's financial problems, the 1986-87 District budget will experience a deficit of \$5.3 million and this deficit is projected to grow to \$11.8 million by the end of 1988-89.

As of January 2, 1986, the Governing Board of the Peralta Community College District had not yet approved a plan to resolve the District's financial difficulties. A plan had been submitted to the District Board by the District Chancellor. The District Board held a series of hearings on this plan December 11 - 13, 1985. However, no formal action was taken. Consequently, the \$2 million in emergency loan funds have not yet been received by the District.

The principal cause of the District's financial difficulties is the District's failure to reduce staffing as average daily attendance (ADA) has declined. The District receives the majority of its revenues from the state and these state revenues are based on ADA. The District's ADA is projected to decline by approximately 26 percent during the period from June 1983 to June 1986. During this same period, District staffing declined by 5.6 percent.

The purpose of this report is to provide an analysis of the financial condition of the Peralta Community College District in order to determine whether actions taken by the District are likely to resolve the financial problems of the District. Since the District Board had taken no action as of January 2, 1986 to resolve the District's projected financial problems, the analysis of this report focuses on trends and projections of District expenditures, revenues and ADA. The plan for expenditure reductions submitted to the District Board by the District Chancellor is also reviewed in this report. By reviewing this plan and these trends, this report can analyze whether the actions being considered by the District Board would be likely to resolve the District's financial problems or whether additional actions will also be necessary.

Cash Flow Analysis

A projection of the District's cash flow, based on revenues and expenditures during 1984-85 and the first five months of 1985-86 indicates that the District will not be able to meet its 1985-86 cash flow needs even if it receives the \$2 million loan which the legislature has appropriated for the District. The projected shortfall as of June 30, 1986 is approximately \$1 million.

1985-86 Fund Balance Projections

At the beginning of the 1985-86 fiscal year, the District had a negative general fund balance of approximately \$4.2 million. The budget prepared by the District Chancellor for 1985-86 projected a negative general fund balance of approximately \$1.17 million in addition to an obligation to repay the \$2.0 million loan to the State. However, our projections indicate that the District will have a negative general fund balance at the end of the 1985-86 fiscal year of approximately \$2.12 million.

Average Daily Attendance (ADA) Analysis

The principal source of District revenue is state funds which are provided on the basis of ADA. The District's ADA is projected to drop from over 19,000 in 1982-83 to less than 15,000 in 1985-86. The District's projection of ADA for the next three years is higher than would be realized based on past trends or current enrollments. Based on current enrollments, current state support levels and the District's expenditure projections through 1988-89, the District will need approximately \$1.14 million in additional revenues through 1988-89.

District Staffing Analysis

The District has not reduced staff to correspond to declines in District enrollments over the past several years. The District's ADA has declined by approximately 26 percent since 1982-83 while the number of staff positions has declined by 5.6 percent. Furthermore, staff is not consistently allocated throughout the District.

Budget Procedures and Expenditure Controls

The District has adequate controls on expenditures, but District budgeting procedures allow for considerable flexibility. Budget responsibility is decentralized, fund transfers can be accomplished administratively at different levels in the District organization, and general reserves have not been budgeted by the District. In addition, District revenue estimates are not consistent with projected District enrollments.

Analysis of Revenues and Expenditures

An analysis of revenues and expenditures for the Peralta Community College District shows that the cost of restricted fund programs has exceeded restricted fund revenues by approximately \$1.4 million over the period from 1980-81 through 1984-85. Most of these over-expenditures occurred during the 1983-84 and 1984-85 fiscal years and were recorded in the 1984-85 fiscal year. Restricted fund revenue deficiencies have been offset by intrafund transfers of unrestricted funds. At the beginning of 1985-86, the District had no restricted fund reserves and no provision has been made to offset any excess of restricted fund expenditures over restricted revenues in forecasts of expenditures and revenues prepared by the District for the years through 1988-89.

Analysis of Budgets and Expenditures

An analysis of budgets and expenditures over the period from 1980-81 through 1984-85 indicates that expenditure forecasts through 1988-89 may be underestimated in some areas. Based on previous District experience, this underestimating results from the use of base budgets which are lower than previous expenditures by the District in some budget categories and from making budget increase projections which are not consistent with the District's past experience in some areas.

Expenditure Reduction Plan

District financial projections indicate that the District will face a deficit of approximately \$11.8 million by the end of 1988-89 if no budgetary adjustments are made. The expenditure reduction plan which has been submitted to the District Board projects a \$1.4 million surplus by the end of 1988-89. However, this plan does not include restricted fund considerations which would require additional revenues or reduced expenditures. Furthermore, the plan contains assumptions which are not consistent with past District experience in the areas of the calculation of certain base budgets and expenditures for certain budget categories. Our projections indicate that, based on past District experience, the District would need approximately \$4.44 million in additional revenues or additional expenditure reductions beyond what are contained in the financial plan submitted by the District Chancellor to the District Board.

Conclusion and Recommendations

Based on our review of the financial condition of the Peralta Community College District in the areas of revenue and expenditure projections, budget and expenditure controls, cash flow requirements, ADA and staffing trends and projections, we believe that the District will continue to experience financial difficulties. These difficulties will be particularly severe if the District Board takes no action to reduce District expenditures beginning in the 1986-87 fiscal year. However, even if the District Board approves the financial plan submitted by the District Chancellor, and receives the \$2 million loan from the State, our analysis and projections indicate that the District will not achieve its goal of a \$1.4 million surplus by the end of 1988-89. Rather, our projections indicate that the District will have a negative cash balance of approximately \$1 million at the end of the 1985-86 fiscal year and will continue to experience general fund deficits through 1988-89. Based on these projections, we recommend that the District Board request the District Chancellor to prepare plans for additional expenditure reductions beyond what have already been submitted to the District Board.

INTRODUCTION

The Peralta Community College District (PCCD) is one of 70 community college districts in the State of California. The Peralta Community College District encompasses six school districts in Alameda County plus Plumas County in the Sierra mountains. The District operates five colleges, including one college without walls, and a separate skills center. In 1984-85, the Peralta Community College District had general fund expenditures of approximately \$51.6 million, an average daily attendance (ADA) projected at 15,195 and a staff of 1,092.9 authorized full-time equivalent positions.

The principal source of funding for community college districts in California is provided by the state. This state funding is based on average daily attendance (ADA). Therefore, community college districts with expanding enrollments can expect to receive increasing state funding whereas districts with declining enrollments can expect to receive decreasing state funding. Over the past several years, community college enrollments have declined statewide but the state has not decreased state funding in proportion to these declines. In 1985-86 and subsequent years, however, the state has revised its funding formula so that state funding will reflect actual ADA in the current year and in future years.

Between the 1982-83 and 1985-86 fiscal years, Peralta Community College District ADA is projected to fall by approximately 26 percent from over 19,000 to less than 15,000. During this time the District did not make corresponding reductions in its operating budget. At the end of the 1984-85 fiscal year, the Peralta Community College District had a negative general fund balance of \$4.2 million and the District's auditors raised the question as to whether the District could continue as a going concern.

On July 9, 1985, the Governor approved AB 539 which appropriated \$4.8 million for emergency apportionments to provide loans to three community college districts which were experiencing financial difficulties. The Peralta Community College District was identified to receive \$2 million of these funds. As a condition for receiving these funds, the Peralta Community College District was required to submit to the county superintendent of schools a plan, adopted by the District Board, to resolve the District's financial problems. The State Chancellor of the California Community Colleges is required to review information submitted by the county superintendent regarding the financial difficulties of the Peralta Community College District and to provide comments and recommendations to the State Director of Finance concerning the release of these funds.

The 1985-86 budget for the District includes the \$2 million loan from the state in its estimated revenues. Including these funds, the District Chancellor submitted a budget that was out of balance by approximately \$1.17 million to the District Board for its approval. Based on our review of the District's financial condition, we believe that the District will experience a negative cash balance of approximately \$1 million and a negative general fund balance of approximately \$2.12 million at the end of 1985-86 even if the loan funds are received by the District.

Our analysis of the District's financial condition included a five-year review of expenditures, revenues, enrollments and staffing, a review of budgeting procedures and expenditure controls used by the District, an analysis of the District's cash flow requirements based on the experience of 1984-85 and the first five months of 1985-86, and a review of the District's financial forecasts. From this analysis of the District's financial condition we have found patterns of under-budgeting in certain budget

categories and over-estimating of certain revenues. The cash flow analysis indicates that some of these patterns are continuing during the 1985-86 fiscal year. The review of budget procedures shows that the District's procedures do not facilitate the adjustment of budgeted expenditures to correspond with revenues received by the District. All of these factors have contributed to the District's financial problems.

The District's Chancellor projects that if no corrective action is taken to resolve the District's financial problems, the 1986-87 District budget will experience a deficit of \$5.3 million which will grow to \$11.8 million by the end of 1988-89. The District's Chancellor has submitted a plan to the District to resolve the District's financial problems and establish a \$1.4 million reserve by the end of 1988-89. Approval of such a plan by the District Board is one of the conditions for receipt of the \$2 million loan from the state. The District Board held a series of hearings on this plan during December 11 - 13, 1985. However, no formal action was taken. Our review of this plan indicates that based on past District experience certain revenues continue to be over-estimated and certain expenditures are under-budgeted in the District's financial projections. Our analysis indicates that even if the District Board approves this plan, the District will continue to experience negative cash and general fund balances through 1988-89.

The purpose of this report is to provide an analysis of the financial condition of the Peralta Community College District in order to determine the causes of the District's financial problems and whether actions taken by the District are likely to resolve these financial problems. The District Board had taken no action as of January 2, 1986 on the expenditure reduction plan submitted to the Board by the District Chancellor. Therefore, the analysis of this report focuses on the current financial condition of the District and the factors which have contributed to that condition including District expenditures, revenues and ADA trends over the past five years. We have also reviewed the District Chancellor's plan for expenditure reductions. By including past trends, the current financial condition of the District and the District Chancellor's plan for expenditure reductions in our analysis, our report can determine the extent to which the actions being considered by the District Board will be likely to resolve the District's financial problems. Based on our analysis, we believe that the District's financial problems will continue unless the District Board takes specific actions beyond what have been recommended by the District Chancellor.

This report includes specific recommendations to the Peralta Community College District Board. These recommendations address the areas of budgeting, budgeting procedures, revenue projections, staffing levels and the management of non-salary expenditures. Our conclusions and recommendations are presented in the first eight sections of this report and are summarized in the final section of this report.

Scope and Methodology

In preparing this report we reviewed financial audits of the District, District budgets and District financial reports to the state (Form 311) for the years 1980-81 through 1984-85. We also reviewed the monthly expenditure and revenue reports filed by the District with the county treasurer for 1984-85 and the first five months of 1985-86. From these sources we were able to compare budgets to actual expenditures and revenues and monthly cash balances for the District. We also reviewed the District's budget procedures manual and interviewed the District Controller and Chief Accountant to gain information on budgeting and expenditure control issues. We interviewed the Vice Chancellor for Education and his staff for information on enrollments and ADA calculations. We also contacted the Office of the State Chancellor for information on statewide staffing comparisons and funding mechanisms for California community

college districts. The District Chancellor and District Controller were given the opportunity to review and comment on a draft of this report.

The procedures cited above were not sufficient to constitute an examination made in accordance with generally accepted auditing standards. Therefore, we do not express an opinion on any of the financial statements referred to in this report.

Section I: Cash Flow Analysis

The Peralta Community College District ended fiscal year 1984-85 with a book cash overdraft with the Alameda County Treasurer of approximately \$6.5 million. At the same date, the County Treasurer showed a cash overdraft of approximately \$1 million for the District. The difference of approximately \$5.5 million represents checks which were written by the District during the last few days of June, 1985 but which had not been deducted from the District's account as of June 30 (outstanding checks). The average value of all outstanding checks at the end of each month is approximately \$2.8 million. However, the value of all outstanding checks at the end of June is generally approximately \$5 million because the District issues salary checks in June to contract faculty for the months of July and August.

In July, 1985, the County Treasurer advanced the District \$7.19 million on its fiscal year 1985-86 state allocation. This advance must be repaid to the County Treasurer by the end of April 1986. The County Treasurer has notified the District of his intent to register the District's warrants after the last Monday in April, 1986 if the District's cash balance with the County is negative. (A registered warrant is a form of check that can be redeemed only when sufficient funds are available.) The registration of the District's warrants would continue through the end of the current fiscal year (June 30, 1986).

The District has projected its cash flow through the end of the current fiscal year. The District's projection indicates a positive year-end cash balance of approximately \$612,000. This projection assumes that the District will receive the \$2 million in emergency loan funds which have been appropriated by the State Legislature under AB 539. The projection, however, neglected to provide for repayment of the \$7.19 million advanced by the County Treasurer.

We have reviewed and updated the District's projection. Our analysis was based on actual revenues and expenditures for 1984-85 and for the first five months of 1985-86. From this analysis, we project that if the District receives the \$2,000,000 emergency loan from the State by the end of April, 1986, it will still need approximately \$1.045 million more (\$3,045,000 ending cash deficit less \$2,000,000 State loan) to avoid having some of its warrants registered during the months of May and June. The table on the following page presents our projection of the District's cash flow and cash balances with the County Treasurer for 1985-86.

Conclusion

An analysis of the District's cash flow needs through the end of 1985-86 indicates that the District will not have sufficient funds to meet its projected expenditures even if it receives the \$2 million emergency loan from the State. We estimate that the District will need to generate an additional \$1 million either through increases in revenues or decreases in expenditures.

Recommendations

We recommend that the District Board immediately adopt a plan for expenditure reduction for the 1986-87 through 1988-89 fiscal years so that the District can receive the \$2 million emergency loan from the State. We further recommend that the District adopt expenditure reductions in the amount of \$1 million from its 1985-86 budget.

TABLE I.1

Forecasted Cash Flow*
All Funds
1985-86

	<u>Actual Through 11/30/85</u>	<u>December</u>	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>Total</u>
<u>Receipts</u>									
State Apportionment	\$17,389,000	\$1,672,000	\$2,676,000	\$2,762,000	\$2,762,000	\$2,762,000	\$2,762,000	\$2,551,000	\$35,336,000
Local Taxes	416,000		2,992,000			2,992,000			6,400,000
Enrollment Fees	552,000		843,000						1,395,000
Financial Aid	563,000	750,000	243,000	650,000	525,000	330,000	200,000	39,000	3,300,000
Other Revenues	2,114,000	850,000	980,000	724,000	972,000	567,000	697,000	733,000	7,637,000
Loan From County	7,190,000								7,190,000
	<u>28,224,000</u>	<u>3,272,000</u>	<u>7,734,000</u>	<u>4,136,000</u>	<u>4,259,000</u>	<u>6,651,000</u>	<u>3,659,000</u>	<u>3,323,000</u>	<u>61,258,000</u>
<u>Disbursements</u>									
Payroll	14,521,000	2,939,000	2,855,000	2,813,000	2,813,000	2,813,000	2,813,000	2,813,000	34,380,000
Accounts Payable	5,833,000	813,000	1,368,000	1,202,000	615,000	1,391,000	714,000	380,000	12,316,000
Financial Aid	1,000,000	750,000	325,000	650,000	325,000	125,000	125,000		3,300,000
Wire Transfers ²	1,566,000	570,000	570,000	570,000	570,000	570,000	570,000	1,117,000	6,103,000
Repay Loan From County						7,190,000			7,190,000
	<u>22,920,000</u>	<u>5,072,000</u>	<u>5,118,000</u>	<u>5,235,000</u>	<u>4,323,000</u>	<u>12,089,000</u>	<u>4,222,000</u>	<u>4,310,000</u>	<u>63,289,000</u>
Excess of Receipts Over Disbursements	5,304,000	(1,800,000)	2,616,000	(1,099,000)	(64,000)	(5,438,000)	(563,000)	(987,000)	(2,031,000)
Beginning Cash	(1,014,000)	4,290,000	2,490,000	5,106,000	4,007,000	3,943,000	(1,495,000)	(2,058,000)	(1,014,000)
Ending Cash	<u>\$4,290,000</u>	<u>\$2,490,000</u>	<u>\$5,106,000</u>	<u>\$4,007,000</u>	<u>\$3,943,000</u>	<u>\$(1,495,000)</u>	<u>\$(2,058,000)</u>	<u>\$(3,045,000)</u>	<u>\$(3,045,000)</u>

¹ Does not reflect receipt of \$2 million emergency loan and includes all funds except Bond Fund.

² Payroll taxes, employee withholdings, pension funds.

*See accompanying Summary of Significant Forecast Assumptions.

Table I.1 (continued)

Summary of Significant Forecast Assumptions

This financial forecast is based on management's assumptions concerning future events and circumstances. The assumptions disclosed herein are those which management believes are significant to the forecast or are key factors upon which the financial results of the Peralta Community College District depend. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur subsequent to December 30, 1985, the date of this forecast. Therefore, the actual results achieved during the forecast period may vary from the forecast and the variations may be material.

1. Basic Assumptions

The forecast includes all funds which are controlled by the District because all funds flow through the General Fund and through the County Treasurer's Office. Restricted funds have no impact on the General Fund because they are transferred to the appropriate fund upon receipt and or disbursement. The forecast does not include the Bond Fund. Receipts and disbursements are forecast when assumed to be actually received and paid, respectively, by the County Treasurer.

2. Receipts

- a. ADA source receipts are based on actual estimates supplied by the State which have been adjusted for known overestimates. However, estimated lottery revenue is not included due to the Governor's ability to reduce the appropriation to community colleges for any revenues generated from the lottery.
- b. Other revenues are based upon budgeted amounts.

3. Disbursements

All expenditures are based on budgeted amounts adjusted for omissions or actions which have taken place subsequent to the original projection.

Section II: 1985-86 Fund Balance Projections

At the beginning of the 1985-86 fiscal year, the Peralta Community College District had a negative general fund balance of approximately \$4.2 million. Based on this negative balance and other considerations, the District's auditors raised the question as to whether the District could continue to operate as a going concern. The budget prepared by the District Chancellor for 1985-86 included the \$2 million loan from the state as a revenue and projected that the \$4.2 million deficit would be reduced to \$1.17 million by the end of the 1985-86 fiscal year.

We have reviewed the District's revenue and expenditure estimates for the 1985-86 fiscal year. From this review, we project that the District will have a general fund deficit at the end of 1985-86 of approximately \$2.12 million.

Our projections of the general fund deficit differ from those of the District because our projections reflect additional costs for employee salaries approved by the District Board in December, revised revenues based on current enrollments and interest expenses. These factors are not reflected in projections and estimates prepared by District staff. The District's estimates and our adjustments to those estimates are presented on the table on the following page.

Conclusion

The 1985-86 District has prepared a budget with a projected negative general fund balance of approximately \$1.17 million in addition to an obligation to repay the \$2.0 million loan to the State over a three-year period. However, we project that District's general fund will be out of balance by approximately \$2.12 million at the end of the 1985-86 fiscal year.

Recommendation

We recommend that the District Chancellor prepare budget revisions for the District Board which reflect increased costs due to salary increases approved by the Board, interest payments not included in the District budget and updated revenue estimates based on current District enrollments.

Table II.1
Forecast For Fiscal Year 1985/1986*
General Fund

	<u>District Forecast</u>	<u>Adjustments</u>	<u>Adjusted Forecast</u>
Revenue:			
ADASources	\$43,806,000	\$(211,000) ¹	\$43,595,000
Federal Sources	425,000		425,000
Misc.State	362,000		362,000
Other Sources	1,025,000		1,025,000
Total Revenue	<u>45,618,000</u>	<u>(211,000)</u>	<u>45,407,000</u>
Expenditures:			
Salaries:			
Certified Reg.	14,786,000		14,786,000
Certified Hourly	2,864,000		2,864,000
Classified	8,089,000	404,000 ³	8,493,000
Administration	3,318,000		3,318,000
Students & Others	661,000		661,000
Total Salaries	<u>29,718,000</u>	<u>404,000</u>	<u>30,122,000</u>
Fringe Benefits	<u>6,019,000</u>	<u>81,000³</u>	<u>6,100,000</u>
Total Salaries & Fringe Benefits	<u>35,737,000</u>	<u>485,000</u>	<u>36,222,000</u>
Other Expenses:			
Interest		250,000 ²	250,000
Fixed Expenses	3,698,000		3,698,000
Other Operating	3,068,000		3,068,000
Total Other	<u>6,766,000</u>	<u>250,000</u>	<u>7,016,000</u>
Total Expenditures	<u>42,503,000</u>	<u>735,000</u>	<u>43,238,000</u>
Excess of Revenue Over Expenditures	3,115,000	(946,000)	2,169,000
Beginning Fund Bal.	<u>(4,287,000)</u>		<u>(4,287,000)</u>
Ending Fund Bal.	<u>\$(1,172,000)</u>	<u>\$(946,000)</u>	<u>\$(2,118,000)</u>

¹ Adjustment for ADA growth allowed by State - no ADA growth projected.

² Adjustment for estimated interest.

³ Adjustment for 5% salary increase for classified personnel approved by Board including estimated impact on fringe benefits.

*See accompanying Summary of Significant Forecast Assumptions.

Table II.1 (continued)

Summary of Significant Forecast Assumptions

This financial forecast is based on management's assumptions concerning future events and circumstances. The assumptions disclosed herein are those which management believes are significant to the forecast or are key factors upon which the financial results of the Peralta Community College District depend. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur subsequent to December 30, 1985, the date of this forecast. Therefore, the actual results achieved during the forecast period may vary from the forecast and the variations may be material.

1. Average Daily Attendance (ADA) and Other Revenues

- a. ADA is based on actual estimates supplied by the State which have been adjusted for known overestimates. However, estimated lottery revenue is not included due to the Governor's ability to reduce the appropriation to community colleges for any revenues generated from the lottery. Included in revenue from ADA sources for fiscal year 1985-86 is the \$2.0 million State loan. The corresponding liability to repay the loan, however, will be included in the long term debt group and not be reflected in the General Fund balance as of June 30, 1986.
- b. Other revenues are based on budgeted amounts.

2. Expenditures

All expenditures are based on budgeted amounts adjusted for omissions or actions which have taken place subsequent to the original projection.

Section III: ADA Analysis

State funding is provided to community colleges based on their Average Daily Attendance (ADA) during the previous academic year. As has occurred statewide, enrollment at the Peralta Community College District has decreased over the past several years. ADA dropped from 19,966 in 1980-81 to a projected 14,725 for the current 1985-86 year. These declines are significant because State funding based on ADA provides approximately 69% of District general fund revenues. Explanations for the decline provided by District administrative staff and staff of the California Community Colleges Office include:

- the statewide imposition of fees at community colleges;
- defunding by the State for certain self-help courses;
- more aggressive affirmative action recruiting programs at the California State Universities and University of California.

A summary of District-wide ADA trends for 1980-81 through 1985-86 is as follows:

<u>Year</u>	<u>ADA</u>	<u>% Change from Previous Year</u>
1980-81	19,966	-
1981-82	20,527	+2.8
1982-83	19,846	- 3.3
1983-84	16,967	-14.5
1984-85	15,195	-10.4
1985-86*	14,725	-3.1

*Projected based on preliminary data.

Enrollment decreases have occurred at all District colleges. The preliminary data for the 1985-86 academic year indicate that the dramatic decreases in student enrollment experienced in 1983-84 and 1984-85 are slowing but that current year enrollment will still represent a decrease compared to 1984-85. Based on the projected 1985-86 ADA of 14,725, the District's State apportionment for 1986-87 can be expected to decline by approximately \$650,000. This decline is not fully reflected in District revenue forecasts which provide the basis for District expenditure projections over the next three years.

The District's 1984-85 original projection of ADA revenues exceeded actual ADA revenues by \$3.9 million. The District did reduce its budget during that year because of declining enrollment in the fall semester and expected losses in State revenues, according to District staff. However, the expenditure reductions were not sufficient to correspond to District revenues which were lower than projected and the District ended the 1984-85 fiscal year with a negative general fund balance of \$4.2 million.

Conclusion

The District's Expenditure Reduction Plan calls for a state ADA level of 15,000 for the three academic years beginning in 1986-87. Based on current trends, these projections appear optimistic and may leave the District further short of expected revenues.

Recommendation

The District should reduce its ADA projection for 1986-87 and beyond to more accurately reflect actual 1985-86 ADA. At this point, the appropriate projection for 1986-87 would be 14,725 rather than 15,000. Revenue projections and related expenditure plans should be adjusted accordingly.

Section IV: District Staffing Analysis

The District's ADA has declined by approximately 26 percent since 1982-83 while staffing has declined by only 5.6 percent. Staff costs account for approximately 85% of all District operating costs. As shown in Table IV.1, staff cutbacks have occurred in all three categories of staff though administrative positions have lost the largest relative share of positions. Certificated staff (teaching staff), including hourly staff, has been decreased by 6.3 percent from 641.96 FTE (full-time equivalent positions) in 1982-83 to 601.6 in 1985-86. Administrative staffing has been decreased by 15.0 percent from 80 FTE in 1982-83 to 68 in 1985-86. Classified staffing (support staff) has been decreased by 2.7 percent from 402 FTE in 1982-83 to 391 FTE in 1985-86.

Table IV.1

**Changes in FTE at the Peralta Community College District
By Staff Categories
1982-83 and 1985-86**

	<u>1982-83</u>	<u>1985-86</u>	<u>Change</u>	<u>% Change</u>
Certificated	641.96	601.60	- 40.36	- 6.3%
Administrative	80.00	68.00	- 12.00	- 15.0
Classified	<u>402.00</u>	<u>391.00</u>	<u>-11.00</u>	<u>- 2.7</u>
	1,123.96	1,060.60	- 63.36	- 5.6%
ADA	19,846	14,725*	- 5,121	- 25.8%

*Projected

One result of the large drop in ADA relative to the decline in certificated FTE has been that faculty productivity, as measured by ADA/Certificated FTE, has decreased. As shown in Table IV.2, there were an average of 28.83 ADA per certificated FTE in 1982-83 but that number has dropped to a projected 22.61 for the present academic year.

Table IV.2

**ADA/Certificated FTE
Peralta Community College District
1982-83 through 1985-86**

	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>
Average ADA/ Certificated FTE	28.83	25.68	23.82	22.61

Staff is not Consistently Allocated throughout the District

The relationships between students and certificated staff, between certificated staff and administrative staff and between classified and administrative staff are not consistent throughout the District. Table IV.3 shows the lack of consistency in the allocation of staff at the various colleges of the District.

Table IV.3

Staff Ratios By College
Peralta Community College District
1985-86

	<u>ADA/ Cert. FTE</u>	<u>Cert. FTE/ Admin. FTE</u>	<u>Class. FTE/ Admin. FTE</u>
College of Alameda	25.12	10.13	4.18
Feather River	12.78	14.71	6.50
Laney	22.24	18.71	5.58
Merritt	20.84	12.29	3.92
Vista	24.04	8.95	3.50
District Wide	--	--	7.88
Total	24.48*	8.85	5.75

* Includes summer.

As can be seen, the number of ADA per certificated FTE is particularly low at Feather River College. The next lowest is Merritt, followed by Laney, Vista and College of Alameda. The number of certificated FTE for each administrative FTE ranges from 8.95 at Vista and 10.13 at College of Alameda to 18.71 at Laney. There is no apparent reason why any of these colleges should require more administrative staff than the others. Without such an explanation, some colleges, notably Vista and the College of Alameda, appear to be administratively overstaffed.

The ratio of classified FTE to administrative FTE ranges from 3.5 at Vista College to 6.5 at Feather River College. There is no explanation for these differences either; our conclusion is that the colleges with the higher ratios, namely Laney and Feather River, are overstaffed in this area.

Contract Faculty and Hourly Faculty have Different Costs and Productivity Rates

There are two classes of faculty at the District colleges: contract and hourly. Contract faculty are full-time staff paid a salary and all fringe benefits. Hourly faculty are temporary and normally do not receive fringe benefits at the same level as contract faculty (they do have the option of buying into some of the District's benefits programs). Additionally, some contract faculty assume additional teaching responsibilities over the normal 15-unit semester workload and are paid an hourly wage for those services. Regular hourly faculty are less expensive to the District because they are not paid fringe benefits and because their salaries are not ongoing fixed costs.

Every year since 1980-81, hourly faculty have been more productive for the District than contract faculty as measured in terms of ADA per certificated FTE. This has been true in College Support Services staff and at almost every college.

The District-wide comparative data are as follows:

Table IV.4

	ADA/Certificated FTE	
	<u>Contract</u>	<u>Hourly</u>
1980-81	25.04	32.01
1981-82	27.35	34.91
1982-83	27.29	36.45
1983-84	24.79	35.26
1984-85	21.45	36.19
1985-86*	18.00	34.75

*projected

The explanation for the higher productivity of the hourly faculty is that the District can hire them to teach classes for which there is high student demand and release them when demand shifts. With tenured contract faculty, on the other hand, the District cannot alter the disciplines that they teach.

As enrollment has declined at the District colleges, the number of hourly faculty positions employed by the District has declined as a proportion of the District's total certificated FTE. The proportion of more costly contract faculty has increased, increasing the District's unit costs and reducing its flexibility to change its mix of courses and offer classes that produce more ADA. This has occurred because the District has chosen to reduce hourly faculty employees to alleviate their fiscal problems rather than laying off contract faculty. The distribution of contract and hourly FTE for the years 1980-81 through 1985-86 are as follows:

Table IV.5

Contract and Hourly Certificated FTE

	<u>Contract</u>	<u>Hourly</u>	<u>Total</u>
1980-81	432.61	269.20	701.81
% Total	61.6%	38.4%	
1981-82	417.07	238.27	655.34
% Total	63.6	36.4	
1982-83	387.94	176.24	564.18
% Total	68.8	31.2	
1984-85	414.50	139.50	554.00
% Total	74.8	25.2	
1985-86	454.20	125.41	579.61
% Total	78.4	21.6	

In conclusion, the ADA per certificated FTE in the District has decreased not only due to a decline in enrollment without proportionate declines in faculty positions, but

also due to the increase in the percentage of contract faculty who, overall, are less productive (in terms of ADA) and more costly.

Impact of the District's Spending Reduction Plan

If District's proposed Spending Reduction Plan is approved by the District Board, inconsistent staff allocations at the colleges will be maintained. Assuming 1986-87 ADA remains the same as projected 1985-86 (14,725), the District's plan would have the following impacts:

Table IV.6

**Staffing Ratios by College
1985-86 and Under Assumptions
of Expenditure Reduction Plan**

	<u>ADA/ Cert. FTE</u>		<u>Cert. FTE/ Admin. FTE</u>		<u>Class. FTE/ Admin. FTE</u>	
	<u>85-6</u>	<u>Plan</u>	<u>85-6</u>	<u>Plan</u>	<u>85-6</u>	<u>Plan</u>
College of Alameda	25.12	26.95	10.13	12.99	4.18	5.39
Feather River	12.78	18.41	14.71	10.21	6.5	4.25
Laney	22.24	23.83	18.71	19.05	5.58	5.70
Merritt	20.84	22.39	12.29	13.73	3.92	4.37
Vista	24.04	31.82	8.95	13.52	3.5	3.67

As shown, ADA per certificated FTE would remain inconsistent at the various colleges. The number of certificated FTE per administrative FTE would range from 10.21 at Feather River to 19.05 at Laney. The number of classified FTE per administrative FTE would range from 3.69 at Vista to 5.70 at Laney. The District Plan does not address the District's inconsistent staffing patterns although there will be some improvements over existing conditions. Feather River College indicators would continue to remain substantially below the other colleges, even after the Plan recommendations are implemented.

Staffing Needs

The District does not utilize consistent performance standards in allocating its staff. By using such standards, staff could be more equitably distributed and District costs could be reduced. The staffing recommendations included in the Chancellor's proposed Expenditure Reduction Plan do not change this situation, though the Plan provides for improvements in this area.

Certificated Staff Could be Further Reduced Beyond that Recommended in the District's Expenditure Reduction Plan

In 1982-83, the average ADA/Certificated FTE ratio District-wide was 28.83; at present that ratio is 21. Under the terms of the Chancellor's proposed Expenditure Reduction Plan, that average would increase to 24.68. While this represents an improvement, it does not bring the District back to the standards of 1982-83, the last year before the District's dramatic enrollment decline. To do so, additional faculty positions beyond the 55 FTE recommended in the Plan should be deleted.

Table IV.7 below shows the ratios of ADA/Certificated FTE for 1982-83, 1985-86 and for 1986-87, assuming the Chancellor's Expenditure Reduction Plan is adopted.

Table IV.7

	ADA/Certificated FTE		
	<u>1982-83</u>	<u>1985-86*</u>	<u>1986-87 (Under Plan)</u>
College of Alameda	29.41	25.12	26.95
Feather River	21.17	12.78	18.41
Laney	31.99	22.24	23.83
Merritt	30.04	20.84	22.39
Vista	31.56	24.04	31.82
Average	28.83	21.0	24.68

*Projected

To return to the workload standards of 1982-83 (28.83 ADA/Certificated FTE), 41.99 net additional certificated FTE could be deleted, as shown in the following table. As discussed in the section concerning the differences between contract and hourly faculty costs, the District would benefit from deleting contract positions rather than hourly positions to both reduce costs and to allow for greater District flexibility in offering classes that are responsive to student demand.

Table IV.8

**Certificated FTE Need
Fall and Spring Semesters**

	<u>Recommended in Plan</u>	<u>Employing 1982-83 Standard</u>	<u>Difference</u>
College of Alameda	103.90	97.12	6.78
Feather River	20.42	13.04	7.38
Laney	209.51	173.15	36.36
Merritt	137.30	106.63	30.67
Vista	40.57	44.78	- 4.21
Sub-total			76.98
Less Summer FTE**			-34.99
Net Difference			41.99
Plus Recommended Reductions in Expenditure Reduction Plan			+55.00
TOTAL CERTIFICATED FTE REDUCTIONS			<u>96.99</u>

** Assumes 1104 ADA and ADA/Certificated Faculty Ratio of 31.6 for Summer sessions, Consistent with District's Actual 1985-86 Experience.

An important aspect of reducing faculty positions is to delete positions without negatively affecting ADA production. To maintain at least existing ADA, the District will have to retain some low productivity faculty positions (measured in terms of ADA/Faculty Position) who teach unique classes that would otherwise not be taught if they were laid off. It will have to eliminate some other faculty positions that may be more productive but whose classes could be taught by other remaining faculty members in larger classes. This will allow the District to maintain its current classes and continue to attract the same level of students now attending District colleges so that the District's ADA does not decline further. The cost of this will be larger class sizes for some courses. This is necessitated by contractual requirements which prohibit the District from laying off permanent contract faculty and replacing them with temporary or hourly faculty to continue to offer certain courses.

Administrative Staff could be Further Reduced Beyond the Reductions Recommended in the Proposed Expenditure Reduction Plan.

The number of administrative positions should be tied to District workload indicators such as student enrollment and the size of the faculty. As discussed earlier, the District does not presently employ a consistent set of standards regarding the allocation of administrative staff. The Chancellor's proposed Expenditure Reduction Plan calls for deleting 10 administrative FTE from the District's staff. This would result in a more equitable allocation of administrative staff throughout the District.

If the Chancellor's proposed Plan is adopted and implemented, administrative staffing at the District colleges would be more closely based on consistent standards which relate the number of administrative positions to the number of students and faculty positions. The new level of administrative staffing would be adequate except for at the College of Alameda which would continue to be administratively overstaffed. We recommend that one additional administrative FTE be deleted from the College of Alameda. This would bring that college more closely into conformance with the standards that would be employed at the other colleges if the Plan is implemented.

Administrative staff in College Support Services would be reduced by 1 from 25 to 24 FTE under the Chancellor's proposed Plan. This would result in an estimated Certificated FTE/Administrative FTE ratio for College Support Services of 21.3, which represents a decrease from 1985-86. The trends in College Support Services administrative staffing from 1980-81 through the present are shown below:

Table IV.9

**Ratio: Certificated FTE/
Administrative FTE in
College Support Services**

<u>Year</u>	
1980-81	24.2
1981-82	24.2
1982-83	22.5
1983-84	20.8
1984-85	20.5
1985-86	22.7
1986-87*	21.3

*Under provisions of Chancellor's proposed Expenditure Reduction Plan.

We believe that the District should at least maintain its 1985-86 standard of 22.7 Certificated FTE for every administrative FTE in College Support Services. This would result in an additional reduction of 1 Administrative FTE in College Support Services for a grand total of 23 FTE rather than the 24 recommended in the Chancellor's proposed Expenditure Reduction Plan.

Classified Staff could be Further Reduced in College Support Services and should be More Equitably Allocated between the Colleges.

As with administrative staff, classified staff at the District is presently not allocated according to consistent standards. The Chancellor's proposed Expenditure Reduction Plan recommends a reduction in the District's classified staffing but not on the basis of consistent standards tied to the number of administrative positions. Instead, the recommended reductions in classified staff are based on an across-the-board percentage reduction at all colleges, which will result in a continuation of existing inequities in classified staff allocations at the District colleges. The table below shows the inconsistent classified staff allocation by college and for College Support Services for 1982-83, 1985-86 and the proposed allocation under the terms of the Chancellor's proposed Expenditure Reduction Plan.

Table IV.10

**Classified FTE/Administrative FTE
for College Support Services**

	<u>1982-83</u>	<u>1985-86*</u>	<u>1986-87 (Under Plan)</u>
College of Alameda	5.00	4.18	5.39
Feather River	9.00	6.50	4.25
Laney	6.27	5.58	5.70
Merritt	5.21	3.92	4.37
Vista	2.20	3.50	3.67
College Average**	5.54	4.74	4.70
College Support Services	5.00	5.75	7.70

*Projected

**Excludes College Support Services staff.

As can be seen in the table above, the average number of classified FTE per administrative FTE at the colleges has decreased since 1982-83. Overall, we believe that the number of classified staff recommended under the Expenditure Reduction Plan for the colleges is not inappropriate though they are inequitably distributed among the colleges.

In College Support Services, the level of classified staff appears to exceed actual need based on the ratio of College Support Services Classified Staff to administrative staff for previous years. By applying the 1985-86 standard of 5.75 classified FTE for every one administrative FTE in College Support Services (as compared to the 7.70 level recommended in the Chancellor's Plan), the appropriate level of classified staff in College Support Services would be 138 FTE rather than the proposed 184.76 FTE in the Expenditure Reduction Plan. This would result in a reduction of 46.76 classified FTE in addition to the recommended 34.14 FTE reduction included in the Expenditure Reduction Plan. The table below shows the basis of the recommended additional reduction in classified FTE in College Support Services.

Table IV.11

Classified FTE in College Support Services, 1986-87

<u>Plan Recommendation</u>	<u>Employing 1985-86 Standard</u>	<u>Difference</u>
184.76	138.00	46.76

Conclusion

Student enrollment at the District colleges has declined by approximately 26 percent since 1982-83 while staffing has declined by only approximately 5.6 percent. Staff decreases have been concentrated primarily in administrative staff rather than certificated and classified staff. Certificated staff productivity has declined every year since 1982-83.

The distribution of staff by college is not consistent when measured against workload standards such as student enrollment and ratios between the various categories of staff. Since all of the District colleges provide similar services, there is no explanation as to why some colleges should have more staff than others when measured against a consistent set of workload indicators. Our conclusion is that some colleges are overstaffed given the present level of staffing.

Within the certificated staff, we have determined that contract positions are more costly and generally less productive than hourly staff. In spite of that, the District's Certificated staffing reductions since 1980-81 have been concentrated in hourly positions, further decreasing certificated staff productivity and adding to the District's unit costs.

The Chancellor's proposed Expenditure Reduction Plan addresses some of these staffing problems but does not go far enough in some cases. Specifically, under the proposed Plan, certificated staff productivity would remain lower than it was in 1982-83, the last year before dramatic decreases in student enrollment took place. We concur with the proposed administrative staff reduction recommendations except for the College of Alameda and College Support Services, all of which would remain administratively overstaffed. The Plan recommendations for classified staff are reasonable at the college level though for College Support Services, the Plan recommends an increase in the number of classified staff per administrative position.

Recommendations

We recommend the following staff reductions in addition to those proposed in the Chancellor's Expenditure Reduction Plan:

- Reduce certificated staff by an additional 41.99 FTE;
- Reduce 2 administrative staff FTE; one from the College of Alameda and one in College Support Services;
- Reduce classified staff in College Support Services by an additional 46.76 FTE;
- Redistribute existing classified staff at the colleges so that they are more equitably distributed.

Section V: Budget Procedures and Expenditure Controls.

Budgetary flexibility and an overestimation of revenues have limited the District's ability to adjust to reduced revenues resulting from decreasing enrollment and has allowed the District to overexpend available revenues.

Budget Procedures

Responsibility for the District budget is decentralized. Some budgets are developed and controlled at the District level, others are developed jointly by the District and the colleges but controlled at the District level. Some budgets are developed by the colleges and controlled at the college level. Budgetary transfers can be accomplished administratively at different levels in the District organization.

The Chancellor has complete flexibility to transfer funds from one account to another and to approve increases in departmental budgets. College presidents have the flexibility to transfer funds allocated to their institutions for discretionary purposes from one account to another.

Approval of District expenditures by the Board of Trustees is accomplished after the fact and presently does not preclude overexpenditures of available funds. The District expended \$6.4 million in Unrestricted General Fund monies in excess of Unrestricted General Fund revenues during the five year period ended June 30, 1985. Of this \$6.4 million, approximately \$1.9 million was budgeted against prior year surpluses in the original adopted budgets. The remaining \$4.5 million in overexpenditures resulted from budgetary increases (many of which resulted from actions approved by the Board of Trustees such as salary increases) and revenues which were less than budget estimates.

In the 1982-83 financial audit of the District, the District's auditors recommended that the District establish a general reserve. No general reserve currently exists for the District. Certain appropriations for contingencies have been established. The District's financial forecast provides for the creation of a general reserve. However, the District Board has not taken the necessary action to provide for this reserve.

Revenue estimates by the District are not consistent with District enrollments. Under state guidelines, community college districts receive revenues based on prior year enrollments. District enrollments that we have projected for 1985-86 are below levels projected in District financial forecasts but revenue estimates and expenditure budgets have not been adjusted to reflect these lower enrollment levels. District estimates in the adopted budget of state revenues for 1984-85 exceeded actual revenues by approximately \$3.9 million.

Expenditure Controls

The District's expenditure controls of budgeted funds are adequate. Budgeted items cannot normally be overexpended. The District business office controls the hiring of personnel to insure that all persons hired are properly approved and that budgeted funds are available. In cases where budgeted funds are insufficient to cover expenditures, fund transfers must occur before expenditures can be made. The only accounts which can be overexpended under the present controls are such accounts as overtime or utilities where an obligation is incurred which must ultimately be paid.

Conclusion

The District has adequate expenditure controls to ensure that budgeted items are not over-expended. However, District budget procedures allow for budgetary adjustments and transfers which have created substantial budget deficits.

Recommendations

1. The Board of Trustees should require that the Business Office report at least quarterly on the status of estimated revenues compared to budgeted expenditures so that both revenue and expenditure appropriations may be adjusted to correspond with revenues actually received by the District.

2. The Board of Trustees should require that any budget adjustments which result in an increase of the District Budget receive prior approval of the Board.

3. The Board of Trustees should establish a general fund reserve as recommended by the District's auditors.

Section VI: Analysis of Revenues and Expenditures

An analysis of District revenues and expenditures shows that the cost of Restricted Fund programs in the Peralta Community College District has exceeded Restricted Fund revenues by approximately \$1.5 million between 1980-81 and 1984-85. Most of this excess cost was incurred during the 1983-84 and 1984-85 fiscal years. No provision has been made for such excess costs over revenues in forecasts of expenditures and revenues prepared by the District for the years 1986-87 through 1988-89.

The District's General Fund includes both restricted and unrestricted revenues. Unrestricted funds can be used for any purpose. Examples of unrestricted fund expenditures would be as follows:

- General administration;
- Instruction;
- Instructional supplies;
- Utilities.

Restricted funds are intended to be used for specific purposes which are identified in the funding source. Examples of restricted fund expenditures include the following:

- A special program funded by a federal grant;
- A contract to provide a specific service within a specific time.

A comparison of actual Restricted Fund revenues with expenditures from 1980-81 through 1984-85 shows that expenditures exceeded Restricted Fund revenues in each of the five years. Excess expenditures ranged from a low of \$99,441 in 1983-84 to a high of \$1,383,605 in 1984-85. To support restricted fund program expenditures in excess of budgeted amounts during the five-year period 1980-81 through 1984-85, unrestricted general fund monies were transferred to the District's restricted fund. These transfers (\$476,737 in fiscal year 1981-82 and \$398,059 in fiscal year 1982-83) were accomplished in order to match revenues earned based on ADA with the Restricted Fund program expenditures and had the effect of reducing the net excess expenditures in the Restricted Fund with a corresponding increase in the net overexpenditure in the Unrestricted Fund.

After allowing for the earned ADA revenues shown in the preceding paragraph, which we believe to be appropriate, the District overexpended Restricted General Fund Programs by \$1,462,554 for the five year period. Most of this overexpenditure was recorded in the 1984-85 fiscal year based on expenditure activity during the 1983-84 and 1984-85 fiscal years. An intrafund transfer of Restricted General Fund expenditures has been made to the Unrestricted General Fund. This \$1,474,092 transfer of Restricted General Fund expenditures to the Unrestricted General Fund simply increased the Unrestricted General Fund deficit in fiscal year 1984-85 from \$2,525,417 to \$3,999,509. The District's Controller reports that the \$1,474,092 also includes some prior year cumulative effects.

The excess of expenditures over revenues on restricted fund programs appears to result from low performance levels on performance based contracts rather than from expenditure control problems. Revenues for some restricted fund projects are based on project performance. In the 1983-84 and 1984-85 fiscal years, the projected performance levels for the District's skills center were not achieved in all cases which resulted in lower levels of revenues than projected. The District's Controller reports that in 1985-86 these potential overexpenditures relative to skills center revenues have been reduced to approximately \$200,000 to \$300,000. However, the District has not included any such overexpenditure in its three-year financial forecasts.

It is possible that additional Unrestricted Funds will be needed to support expenditures for Restricted Fund programs in prior years. Audits of CETA contracts with the District have questioned reimbursement claims totalling \$1,163,000 for the years 1975 through 1981. The District's Controller has stated to us that these claims should be allowed under the guidelines. District Unrestricted Funds have not been transferred to CETA project accounts to cover any potential liabilities resulting from audit exceptions.

Conclusion

The District's financial forecasts for the period 1985-86 through 1988-89 do not include the use of any Unrestricted Funds to support Restricted Fund programs. These forecasts are inconsistent with the District's actual experience over the past five years. In addition, no reserve has been established to provide for possible audit exceptions for prior-year grant funded programs.

Recommendations

1. The District should adjust the 1985-86 budget to reflect actual projected revenues and expenditures for the skills center. Similar projections should be made for the District's financial projections through 1988-89.

2. The District should establish a reserve fund to cover possible audit exceptions for grant funded programs.

Section VII: Analysis of Budgets and Expenditures.

District financial forecasts in the District Plan are based on 1985-86 budgets and projected rates of annual increases through 1988-89. For purposes of forecasting, the 1985-86 budget was adjusted from the original for salary increases, elimination of a budget for contingencies, elimination of budget for loan repayment and a reduction in expected capital outlay requirements. Projected annual increase assumptions for expenditures vary depending on the expenditure category. For all salaries, the projected increases were 7% in 1986-87, 2% in 1987-88 and 2% in 1988-89. For fringe benefits, the projected increases were 10% per year. For utilities and insurance the projected increases were 15% annually. For all other categories the projected increase was 5% annually.

Some budget adjustments in the District Plan are not consistent with District experience over the past five years from 1980-81 to 1984-85. The 1985-86 budget for books, supplies and replacement equipment was revised to a base which is approximately \$381,000 below the annual expenditures for this budget category over the past five years which averaged \$1,007,760. The 1985-86 budget for capital outlay was revised to a base which is approximately \$160,000 below the annual expenditures for this budget category over the past five years which averaged \$351,227.

Some annual increase projections in the District Plan for expenditures are not consistent with past District experience. Expenditures for certificated salaries in unrestricted fund programs have exceeded budgeted amounts for this category by an average of \$784,444 annually over the five year period from 1980-81 through 1984-85. Expenditures for classified salaries in unrestricted fund programs have exceeded budget amounts for this category by an average of \$155,778 annually over the five year period from 1980-81 through 1984-85. Expenditures for fringe benefits in unrestricted fund programs have exceeded budget amounts for this category by an average of \$128,795 annually over the five year period from 1980-81 through 1984-85.

The overexpenditures for certificated salaries over this five-year period have averaged approximately 4% per year in excess of the funds budgeted for employee salaries. The District Controller reports that these excess expenditures resulted primarily from salary increases which were approved by the District Board after the budget was adopted. If this pattern were to continue, then the 2% increases included in the District expenditure forecasts for the 1987-88 and 1988-89 fiscal years would not be sufficient to meet District needs for employee salaries. The deficiency, based on prior year experience, would be approximately \$855,000 for those two years in salary costs.

In December, 1985, the District Board approved a 5% increase for classified staff salaries. This increase was not included in District financial forecasts and will add approximately \$1,962,000 to forecasted District expenses through 1988-89. Corresponding employee benefits would bring the total increase to approximately \$2,394,000. The freeze in classified hiring may reduce classified salary costs by an amount which cannot be projected based on prior experience.

Conclusion

An analysis of budgets and expenditures over the period from 1980-81 through 1984-85 indicates that expenditure forecasts through 1988-89 may be underestimated in some areas.

Recommendation

The District should revise its financial forecasts to reflect actual expenditure patterns over the past five years in the areas of salaries, fringe benefits, supplies and equipment and capital outlay and to reflect recently-approved salary increases for classified staff.

Section VIII: Analysis of District's Expenditure Reduction Plan

District financial projections indicate that the District will face a deficit of approximately \$11.8 million by the end of 1988-89 if no adjustments are made to the District's budget. The Chancellor's proposed Expenditure Reduction Plan which has been submitted to the District Board of Trustees projects a \$1.4 million surplus or reserve by the end of 1988-89. However, this plan does not include restricted fund considerations and contains some assumptions which are not consistent with the District's past experience.

The District's projections show increasing deficits each year for the next three years if the present level of expenditures are maintained. However, the Chancellor's proposed Expenditure Reduction Plan forecasts that the deficit would be reduced over the next two years and then eliminated and replaced by a surplus by 1988-89 if the Plan is adopted and implemented. The District's two sets of projected deficits/surpluses for each of the next three years are shown below; one set assumes a continuation of current expenditures and the other assumes that the Expenditure Reduction Plan is adopted and implemented.

<u>Year</u>	<u>(Deficit)/Surplus if no Spending Change</u>	<u>(Deficit)/Surplus if Plan is Implemented</u>
1986-87	(\$5,300,000)	(\$1,100,000)
1987-88	(\$8,937,000)	(\$258,000)
1988-89	(\$11,800,000)	\$1,400,000

The Chancellor's recommended Expenditure Reduction Plan submitted to the District Board of Trustees for their consideration calls for several actions to avoid the projected deficit situation, including:

1. Reducing administrative staff by 13 FTE;
2. Reducing classified staff by 34.14 FTE;
3. Reducing certificated staff by 55 FTE;
4. Eliminating Vista College as an accredited institution and incorporating elements of it into Merritt College;
5. Reducing expenditures at Feather River College;
6. Consolidating duplicate programs throughout the District;
7. Enhancing certain programs to increase ADA.

These recommendations are based on an analysis of past trends and a set of assumptions about future revenues and expenditures for the District. Key revenue assumptions include:

- ADA will average 15,000 each year through 1988-89;
- ADA will continue to be funded as in previous years with a 6.2 percent cost-of-living adjustment (COLA) added each year;
- Non-ADA revenue will increase 5 percent each year;
- No Lottery revenue is assumed.

Key expenditure assumptions include:

- All unfunded vacant positions are eliminated;
- Salaries are projected to increase by 7 percent in 1986-87, then 2 percent in 1987-88 and 1988-89;

- Employee benefit costs are projected to increase 10 percent annually;
- Utilities and insurance are projected to increase by 15 percent annually;
- Other District expenditures are projected to increase 5 percent annually;
- The \$2 million loan from the State will be repaid over three years at an annual interest rate of 10 percent;
- Reserves will be established by the end of 1988-89 in the amount of approximately 3 percent of the District's unrestricted general fund budget.

Some of the assumptions and projections contained in the Chancellor's proposed Expenditure Reduction Plan are not consistent with actual District experience, as follows:

- The District has consistently overspent budgeted amounts for employee salaries due primarily to raises granted after the budget was adopted. In the last five years, this overspending for certificated salaries has amounted to an average of approximately 4% annually more than the budgets adopted for these expenditures. District forecasts include 2 percent salary increases for 1987-88 and 1988-89. This increase is not consistent with past experience or with the 6.2 percent cost-of-living increase projected for ADA revenue in the District's financial plan. It does not seem plausible that the District's employee groups would accept a 2 percent increase if ADA revenues increase by an amount more than three times as much during two of the three years for which the District has made projections. The differential between 2 percent and 4 percent increases for certificated salaries would be approximately \$855,000 in 1987-88 and 1988-89;
- Budgeted expenditures for capital outlay are projected on a base which is \$159,808 lower than the average experience of the past five years or \$479,424 over the period from 1986-87 through 1988-89;
- Budgeted expenditures for books, materials and supplies are projected on a base which is \$381,403 lower than the average experience of the past five years or \$1,144,209 over the period from 1986-87 through 1988-89;
- The District Board of Trustees approved a 5 percent salary increase for all classified staff which is not included in the District's projected budgets. The cumulative effect of this increase over the next three years would be \$1,962,097.

The cumulative effect of the factors for which expenditure projections can be made based on the experience of the past five years would add approximately \$4.44 million to the projected expenditures for the District through 1988-89. These amounts have not been included in financial forecasts prepared by the District. Any additional effect of increases for employee salaries would depend on negotiated settlements with employee groups. At the time that this report was prepared, the District Board of Trustees had not taken action on the Chancellor's proposed Expenditure Reduction Plan or any alternative plan to reduce expenditures.

Conclusion

The Chancellor's proposed Expenditure Reduction Plan identifies an \$11.8 million deficit by the end of 1988-89 if current expenditure trends continue. To avoid this, it recommends a number of changes in expenditures including reducing staffing and consolidating, eliminating and enhancing various programs.

While the Plan's recommendations would help District reduce its costs and deficit, they are based on a series of assumptions, some of which are not consistent with actual District experience. We believe that those assumptions are not valid and that the projected expenditures included in the Expenditure Reduction Plan are understated.

Recommendations

We recommend that the Chancellor's Office revise its Expenditure Reduction Plan assumptions so that they are consistent with actual experience, as follows:

- Increase projected expenditures for staff salaries to a level consistent with actual expenditures from previous years rather than the 2 percent assumed in the Plan;
- Increase projected capital outlay expenditures at a level consistent with actual expenditures of the last five years;
- Increase projected expenditures for books, materials and supplies at a level consistent with actual expenditures in this category for the past five years;
- Increase projected expenditures for classified staff allowing for the 5 percent salary increase recently approved by District's Board of Trustees.

Section IX: Conclusion and Recommendations

Our analysis of the financial condition of the Peralta Community College District indicates that the District continues to face serious financial problems. The District Chancellor has projected a deficit of \$11.8 million by the end of 1988-89 unless corrective action is taken. The District Chancellor has submitted an expenditure reduction plan to the District Board which would eliminate 55 Certificated Full Time Equivalent (FTE) positions, 13 Administrative FTE positions, and 34.14 Classified FTE positions, consolidate two of the District's five colleges and enhance some other programs. This plan projects a \$1.4 million surplus at the end of the 1988-89 fiscal year. The District Board has held hearings on this plan but has taken no formal action on the plan.

We reviewed District revenue, expenditure and enrollment data over the past five years, the District's current cash flow needs and the District Chancellor's expenditure reduction plan. Based on our analysis, we believe that the District will not have sufficient funds to meet its 1985-86 cash flow needs even if the District receives the \$2 million loan appropriated by the State Legislature. Our projected cash flow deficit for the District at the end of 1985-86 is approximately \$1 million. Our projections also indicate that the District will face a general fund deficit at the end of the 1985-86 fiscal year of approximately \$2.12 million. We also project, based on the experience of the past five years, that the financial forecasts prepared by the District under-estimate certain expenditures and over-estimate certain revenues. The cumulative impact of these under-estimations and over-estimations through the end of the 1988-89 fiscal year would add approximately \$5.78 million to the needs of the District. The specific components of this sum are as follows:

Under-estimation, certificated salaries	\$855,000
Unbudgeted increase, classified salaries	1,962,057
Under-estimation, books, supplies, etc.	1,144,209
Under-estimation, capital outlay	479,424
Over-estimation, ADA	1,140,000
1985-86 potential restricted fund deficit (unbudgeted)	<u>200,000</u>
Total, all items	<u>\$5,780,690</u>

Our projections of the District's needs are in addition to those identified by the District Chancellor in his recommendations for expenditure reductions submitted to the District Board. Therefore, we believe that although the District Chancellor's plan for expenditure reductions addresses many of the financial problems facing the District, it does not go far enough. In order to meet all of the projected financial needs of the District over the next three years, we recommend that the District Board take the specific actions recommended in this report. Implementation of these recommendations would revise revenue projections based on current experience, reduce District expenditures to correspond to District revenues, create a general fund reserve for the District and create a specific reserve for restricted fund programs.

PERALTA COMMUNITY COLLEGE DISTRICT

333 EAST EIGHTH STREET • OAKLAND, CALIFORNIA 94606
(415) 466-7200

DONALD H. GODBOLD, Ph.D.
CHANCELLOR AND DISTRICT SUPERINTENDENT

BOARD OF TRUSTEES

Michael G. Preston
President

John C. Anderson, Jr.

Darrell Carter

Marsha J. Corprew

Dorothy "Doddie" Gifford

Harley White

January 13, 1986

Mr. Thomas W. Hayes
Auditor General
STATE OF CALIFORNIA
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

Thank you for the opportunity to respond to the Harvey M. Rose Accounting Corporation's report on the Peralta Community College District. Our comments are attached.

If we may provide further information or clarification, please do not hesitate to call on us. We certainly want to work cooperatively with your office in arriving at mutually acceptable agreements on how the District's fiscal problems should be resolved.

A copy of our Three-Year Fiscal Plan will be forwarded to you as soon as revisions are complete.

Sincerely,



Donald H. Godbold

DHG:s

Attachment

PERALTA COMMUNITY COLLEGE DISTRICT
Office of the Chancellor

January 13, 1986

RESPONSE TO
"REPORT ON THE FINANCIAL CONDITION OF THE PERALTA DISTRICT"
Prepared by the Harvey M. Rose Accountancy Corporation

District administrators and the Peralta Board of Trustees have reviewed the audit report prepared by the Harvey M. Rose Accountancy Corporation. While no quarrel can be made with the objectivity of the report and the specifics of its observations and recommendations, in general it lacks a full understanding of the nature of a public, multi-college community college system. It would be marvelous to be afforded the luxury of assessing the District's situation from the limited, if detailed, viewpoint of an auditor. However, the Peralta Trustees and Chancellor must consider the future of the District in full awareness of the implications of the recommendations on the District's ability to deliver the educational services for which it is charged, the political realities of the environment within which it exists and the governing regulations to which it must adhere.

While we acknowledge in our responses to the auditors' recommendations that the expenditure reductions recommended must occur, the manner by which it is recommended they occur would be disastrous to the District's Colleges' efforts to provide a comprehensive educational program. The following is an example.

Among other staff reductions, the report recommends the reduction of 91.99 regular teaching staff, while citing the greater productivity of the hourly instructional staff and the need to utilize more hourly staff. These recommendations are contradictory and, if enacted, would be debilitating to the District's educational program. A reduction in this number of regular faculty would touch virtually every discipline of the District's instructional program. Because reductions in staff follow the strict guidelines of the State's Educational Code and negotiated agreements with the faculty unions, the use of hourly staff is precluded for any disciplines in which there has been a layoff of regular teaching staff. Teaching staff reductions on the basis of seniority and "bumping rights" also pose a serious threat to many of the District's occupational programs. Without a careful determination of how the reductions in staff will occur, particularly for instructional staff, the ability to use hourly staff will be limited as will the attainment of the ADA projections.

The urgency of the audit and lack of sophistication regarding community colleges would appear to bear on the recommendations without full knowledge of their implications for the District's instructional program, service to the community, and student enrollment.

Any solution to the problems of Peralta must also consider the political history and implications, because to a certain extent the politics of the District have been instrumental in the creation of the problems. Latitude for the Peralta Trustees, with the administration, to amend and revise the Chancellor's Expenditure Reduction Plan to resolve the District's problems can ameliorate some of these political considerations.

These comments are not offered to argue the fact that changes in the District are and will be necessary to improve management, reduce spending, repay the requested loan, and become solvent in three years. The comments are offered, however, to make the Auditor General aware of the implications and debilitating effect of the recommendations on the instructional mission of the District. Given the opportunity and the latitude necessary, the District Board and administration will make the necessary revisions and additions to the Chancellor's Plan to reduce spending as recommended by the audit report.

The information which follows cites the auditors' recommendations and our responses to them.

SECTION I: CASH FLOW ANALYSIS

Recommendations

"We recommend that the District Board immediately adopt a plan for expenditure reduction for the 1986-87 through 1988-89 fiscal years so that the District can receive the \$2 million emergency loan from the State. We further recommend that the District adopt expenditure reductions in the amount of \$1 million from its 1985-86 budget."

Response

On January 7, 1986, the Board of Trustees adopted the Chancellor's Expenditure Reduction Plan "with modification to be approved by the Board as necessary."

In order to manage our cash flow so that we can reduce our expenditures by \$1.045 million in 1985-86 we intend to:

- (a) continue to control spending throughout the year;
- (b) revise working budgets for the remainder of the fiscal year, and thereafter require cost centers to adhere to their budgets;
- (c) continue quarterly budget reviews with cost center head to monitor spending;
- (d) if lottery funds are forthcoming, to use this money to help improve the cash flow picture.
- (e) make provision to accommodate potential restrictive-funds liability.

SECTION II: 1985-86 FUND BALANCE PROJECTIONS

Recommendation

"We recommend that the District Chancellor prepare budget revisions for the District Board which reflect increased costs due to salary increases approved by the Board, interest payments not included in the District budget and updated revenue estimates based on current District enrollments."

Response

Budget revisions reflecting Board-approved salary increases and revenue adjustments are currently being prepared. All anticipated interest payments are included in the District budget and projections.

SECTION III: ADA ANALYSIS

Recommendation

"The District should reduce its ADA projection for 1986-87 and beyond to more accurately reflect actual 1985-86 ADA. At this point, the appropriate projection for 1986-87 would be 14,725 rather than 15,000. Revenue projections and related expenditure plans should be adjusted accordingly."

Response

We agree that the District projections for 1986-87 and beyond should accurately reflect actual 1985-86 ADA. The 14,725 figure cited by the audit is "projected P-1" enrollment, however, and as of the time of the audit, we are confident that the "actual P-1" for 1985-86 will be at the 15,000 level, rather than 14,725.

SECTION IV: DISTRICT STAFFING ANALYSIS

Recommendation

"We recommend the following staff reductions in addition to those proposed in the Chancellor's Expenditure Reduction Plan:

- Reduce certificated staff by an additional 41.99 FTE;
- Reduce 2 administrative staff FTE; one from the College of Alameda and one in College Support Services;
- Reduce classified staff in the College Support Services by an additional 46.76 FTE;
- Redistribute existing classified staff at the colleges so that they are more equitably distributed."

Response

We do not concur with the recommendations in this Section.

Certificated Staff: This recommendation does not give appropriate consideration to College program needs nor the District's ability to generate its income source, ADA.

- (a) A reduction of 41.99 additional FTE beyond the Chancellor's Expenditure Reduction Plan's projection for reducing 55, would severely impair the District's ability to generate the necessary ADA to fulfill the educational needs of its service area.
- (b) The recommendation does not take into account the impact of the reduction on the programs primarily staffed by hourly personnel which, as acknowledged in the audit report, are the District's most productive generators of ADA. The legal limitation binding the District is such that we cannot employ hourly faculty in any program area in which a regular contract staff member has been laid off.

SECTION IV (Continued)

- (c) Further, the recommendation does not take into account an additional legal limitation placed on the District; namely, the requirement to adhere to the "50% law."
- (d) The recommendation assumes that large class sizes are feasible. The basic structure of the community college educational process does not provide for super large class sizes such as those in other of the State's higher education systems, nor do existing District facilities.
- (e) The recommendation does not take into account special accreditation programmatic requirements.

The Chancellor's Expenditure Reduction Plan of 55 certificated FTE does take into account the aforementioned limitations and needs, and incorporates allowance for generation of the required 15,000 ADA.

Administrative Staff: The Board of Trustees did not contemplate nor plan that all of the District's colleges would utilize the same staffing patterns, nor do the Colleges' facilities and programs necessarily allow for the same administrative structure. The administrative staffing is more a reflection of the program-related duties and functions required than the number of students being served, and therefore, cannot necessarily fluctuate based on changes in number of students. The Chancellor's Expenditure Reduction Plan includes a reduction of 10 FTE in administrative personnel, which more accurately reflects the administrative service needs of our Colleges.

Classified Staff: Included in the Classified "College Support Services" category, as used in the audit report, are clerical personnel staffing the District-wide Admission and Records, Personnel, and Data Processing functions, as well as non-clerical staffs of the District-wide Custodial, Security, Grounds, Warehouse, and Building Maintenance functions serving 5 campuses and a Skills Center in 5 Bay Area cities, as well as a campus in Plumas County, more than 250 miles away. To reduce by 46.76 additional FTE, in this area alone, beyond the 12.24 FTE recommended in the Chancellor's Expenditure Reduction Plan, would mean eliminating these services for all intents and purposes.

Redistribute Classified Staff: The Board of Trustees did not contemplate nor plan that all of the District's colleges would utilize the same staffing patterns, nor do the college facilities and programs necessarily allow for the same classified staffing structure. The classified staffing structure is more a reflection of the program-related duties and functions required than the number of students being served.

SECTION V: BUDGET PROCEDURES AND EXPENDITURE CONTROLS

Recommendations

- "1. The Board of Trustees should require that the Business Office report at least quarterly on the status of estimated revenues compared to budgeted expenditures so that both revenue and expenditure appropriations may be adjusted to correspond with revenues actually received by the District.

SECTION V (Continued)

2. The Board of Trustees should require that any budget adjustments which result in an overall increase of the District Budget received prior approval of the Board. (This recommendation is to be revised.)
3. The Board of Trustees should establish a general fund reserve as recommended by the District's auditors."

Response

1. The Business Office is in the process of designing a report to provide the Board of Trustees with the appropriate budget and expenditure information on a more regular basis, as recommended. However, it must be recognized that the Education Code does not allow the District to make expedient decisions, particularly regarding certificated staffing, because of the need to notify staff of impending lay offs in accord with specified dates.

2. A reduction of the District's overall budget does not occur during the fiscal year. However, in those cases where the current working budgets have been reduced as a result of changes in revenue estimates, any subsequent increase in the working budgets will be approved by the Board before such increases are made.

3. The Chancellor's Expenditure Reduction Plan, as developed, does result in the establishment of a General Fund reserve as recommended by the District's auditors. Accordingly the adjustments necessary will be incorporated in the Chancellor's Expenditure Reduction Plan approved by the Peralta Board of Trustees to ensure that a reserve does result.

SECTION VI: ANALYSIS OF REVENUES AND EXPENDITURES

Recommendations

- "1. The District should adjust the 1985-86 budget to reflect actual projected revenues and expenditures for the skills center. Similar projections should be made for the District's financial projections through 1988-89.
2. The District should establish a reserve fund to cover possible audit exceptions for grant funded programs."

Response

1. The District recognizes the problem and is undertaking a series of alternatives designed to bring the Skills Center expenditures and revenues in line with those reflected in the budget. Alternative measures are being considered for the period through 1988-89 and beyond to eliminate the Skills Center's liability to the District.
2. The Chancellor's Expenditure Reduction Plan, as developed, does result in the establishment of a General Fund reserve as recommended by the District's auditors.

SECTION VII: ANALYSIS OF BUDGETS AND EXPENDITURES

Recommendation

"The District should revise its financial forecasts to reflect actual expenditure patterns over the past five years in the areas of salaries, fringe benefits, supplies and equipment and capital outlay and to reflect recently-approved salary increases for classified staff.

SECTION VIII: ANALYSIS OF DISTRICT'S EXPENDITURE REDUCTION PLAN

Recommendations

"We recommend that the Chancellor's Office revise its Expenditure Reduction Plan assumptions so that they are consistent with actual experience, as follows:

- Increase projected expenditures for staff salaries to a level consistent with actual expenditures from previous years rather than the 1 percent assumed in the Plan;
- Increase projected capital outlay expenditures at a level consistent with actual expenditures of the last five years;
- Increase projected expenditures for books, materials and supplies at a level consistent with actual expenditures in this category for the past five years;
- Increase projected expenditures for classified staff allowing for the 5 percent salary increase recently approved by District's Board of Trustees."

Response to Sections VII & VIII

While, with the reduced work force, projected salary adjustments will more closely reflect previous experience, we recognize the salary increases outlined are not reflective of historical patterns. They were included to recognize the need for staff salary increases and to work to the benefit of the District's solvency. Future salary increases will be negotiated and will be managed within the resources available. It is not impossible that under these kinds of circumstances staffs might be willing to be cooperative in the management of their salary increases and fringe benefits.

Past experience related to capital outlay and books, materials and supplies has related to the needs of the District and the availability of funds at the time. Future expenditures in these areas will necessarily reflect available resources. The Chancellor's Expenditure Reduction Plan cannot and should not be adjusted to past expenditure patterns in the areas of supplies, equipment and capital outlay. Considering the reduction in both students and staff, reductions in these areas are appropriate. Secondly, given the need to maintain ADA and the lack of flexibility in making changes in staffing patterns, it becomes necessary to reduce drastically in non-personnel areas, which we understand and have reflected in our projected expenditures.

The financial forecasts will be revised to reflect recently approved salary increases for classified staff.

CALIFORNIA COMMUNITY COLLEGES

1107 NINTH STREET
SACRAMENTO, CALIFORNIA 95814
(916) 445-8752



January 13, 1986

Thomas W. Hayes
Auditor General
Office of the Auditor General
660 "J" Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

I appreciate the opportunity to review and comment on the draft copy of the report entitled "Report on the Financial Condition of the Peralta Community College District." Due to time constraints and your request that we respond within two working days, we are only able to provide very brief and general comments. My staff will review your report in greater detail with the hope that we can assist the district when possible.

Your report does not present a bright picture pointing to the need for further district action to balance the budget. It appears evident that the emergency apportionment funds, appropriated by the Legislature, will not be sufficient and that additional funds will be necessary.

Additionally, it is apparent that the district must take action to reduce expenditures further, adjusting staffing levels and other costs in line with total revenues.

We appreciate the opportunity to review your report.

Yours sincerely,


Joshua L. Smith
Chancellor

JLS/mh

cc: Gus Guichard
Donald Godbold

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps